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SUBJECT: DEPSEC TREASURY DISCUSSES IRAN SANCTIONS, U.S.  
ECONOMY WITH CONSERVATIVE PARTY LEADER CAMERON

¶1. (SBU) SUMMARY: In a March 10 meeting with Conservative Party leader David Cameron, Deputy Secretary Kimmitt told him that the Iranian financial sector was feeling the effects of Western sanctions and the EU-3 remain unified on tightening the ability of Iranian banks to do business, although Italy is slowing down progress within the EU on autonomous sanctions. The Deputy Secretary, accompanied by Ambassador Tuttle, told Cameron and Shadow Chancellor George Osborne that the fundamentals of the U.S. economy remained strong, discussed the state of the Iraqi economy, and stressed U.S. support for the Transatlantic Economic Council (TEC) and its objective of reducing regulatory and non-tariff barriers to U.S-EU trade. Cameron pledged to follow up with the Council. END SUMMARY.

Iranian Sanctions  
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¶2. (SBU) In response to Cameron's opening question - whether UNSC 1803 would affect Iranian behavior - the Deputy Secretary said that there was "no doubt" it would have an impact on the Iranian banking sector. The international financial sector now recognizes the need to be vigilant -- the word is out that any financial institution that engages in Iranian-related transactions risks its reputation. The Deputy Secretary told Cameron that the EU-3 (UK, France, and

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Germany) are "solid" on building barriers to illicit Iranian financial transactions, but as a result the Iranians are moving their banking and commercial transaction "to the south" -- Switzerland, Austria and Italy.

¶3. (SBU) The Deputy Secretary explained that Italy is playing an unconstructive role within the EU and slowing down EU efforts to establish autonomous sanctions. It was important to talk with the Italians about their "outrider" status. Cameron expressed concern that other European nations were not stopping export credits to Iran. Kimmitt said that although UNSC 1803 did not mandate an end to export credits, it put governments on notice that they had a responsibility to review and monitor any Iranian-related credits and the tendency "across the board" was to cut down on export guarantees to Iran.

Cameron said that he was concerned about whether European nations have the legal regimes in place to unilaterally impose sanctions and freeze assets, outside of an EU framework. Cameron noted that he had specifically asked HM Treasury whether the UK could act unilaterally and was told the legal basis was in place for UK action. The Deputy Secretary said that was his understanding as well of the UK situation, though not more broadly across

Europe, but that the issue for the UK Government was absence of a UK equivalent to the U.S. Classified Information Procedures Act. That Act provides safeguards for the use of classified materiel in U.S. court proceedings. In the absence of a UK equivalent, Kimmitt said, he understood it was often difficult for the UK Government to take criminal action against financial institutions in a manner that would withstand a court challenge. Kimmitt added that he understood there were proposals put forward for similar legislation in the UK; Cameron indicated he would follow up.

#### The State Of The U.S. Economy

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14. (SBU) In response to Cameron's query on the prospects for the U.S. economy, the Deputy Secretary explained that the long-term fundamentals remain sound, but there would be a slower rate of growth in the short-term. The Deputy Secretary described the recently-enacted stimulus package and how its effects would likely be felt by the third quarter of this year. Cameron asked if there were plans for new regulation of the mortgage and banking sectors under consideration. Kimmitt replied that there were proposals under review, but that there would be no "bail out" for lending institutions because of the moral hazard it would represent. Shadow Chancellor George Osborne said that he understood that the situation remained uncertain because investors still did not have a good sense of the value and credit-worthiness of the financial instruments they were holding. The Deputy Secretary agreed that "price discovery" was still taking place and would likely continue for the remainder of the year.

#### Iraq

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15. (SBU) Turning to Iraq, the Deputy Secretary described to Cameron recent progress in the Iraqi economy and in achieving the goals of the Iraq Compact. Iraq is a beneficiary of current oil price, the Deputy Secretary noted, and he told Cameron the Iraqi Government was considering creation of an Iraqi Sovereign Wealth Fund. Money is not the issue, the Deputy Secretary said, rather the need is to work on the Iraqi Government's institutional capacity to manage and execute budget decisions.

#### The Transatlantic Economic Council (TEC)

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16. (SBU) The Deputy Secretary raised with Cameron the strong U.S. support for the Transatlantic Economic Council (TEC) and its focus on reducing regulatory, non-tariff trade barriers. The Deputy Secretary described how the initiative would benefit both sides and would prepare the way for future discussions on the longer-term goal of a U.S.-EU Free Trade Agreement. He noted that the TEC provides a mechanism to respond to UK business people who have concerns over U.S. or EU regulatory requirements. Cameron expressed support for the TEC and its regulatory initiative, noting that at the recent Davos Conference he had talked about the need to push forward with a U.S-EU trade agreement, especially given the lack of progress on the Doha Round. Cameron said he would be in touch with the German head of the TEC about supporting the effort to reduce EU regulatory burdens.

17. (U) Participants: USG: Ambassador Robert Tuttle; Robert Kimmitt, Deputy Secretary, Treasury; Eric Meyer, Director, Europe and Eurasia; Rob Saliterman, Spokesman, International Affairs, Treasury; Rick Mills, Notetaker. UK: David Cameron, Conservative Party Leader; George Osborne, Shadow Chancellor; David Lidington, Shadow Minister of Foreign Affairs, Edward Llewellyn, Chief of Staff.

18. (U) Deputy Secretary Kimmitt has cleared this message.

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